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# Conference Call Transcript

## DEN Networks

### Q1FY15 Results

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*Corporate Participants*

**Mr. M G Azhar**
*COO*

**Mr. Rajesh Kaushall**
*CFO*

## *Questions and Answers*

**Moderator:** Ladies and gentlemen, good day and welcome to the DEN Networks' Q1FY15 earnings conference call hosted by Edelweiss Securities. As a remainder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Alankar Garude from Edelweiss Securities. Thank you and over to you.

**Alankar Garude:** Thanks Melissa. Good day and a warm welcome to all participants. We at Edelweiss Securities are very pleased to host DEN Networks' Q1FY15 earnings conference call. From the management, we have with us Mr. M. G. Azhar – COO and Mr. Rajesh Kaushall – CFO. Thanks to the management for this opportunity. Now I would like to hand over the call to the management for the opening remarks, post which, we will have the Q&A session. Thank you and over to you sir.

**M. G. Azhar:** Thank you Alankar and thank you everybody for joining in. This basically is for the first quarter of this current fiscal FY15. This has been pretty much a very steady quarter with enhanced monetization in Phase-I and Phase-II markets. So we are seeing growth in subscription revenue and if you see our overall profitability, the cable overall profitability has pretty much remained stable in spite of the fact that there is a lower activation revenue of about INR140mn. So in spite of lower activation revenue, our profit margins and profits have remained steady because of the enhanced subscription revenue from these digitized markets and parallel as you are aware that we are currently investing in the broadband business and the football business. So that obviously cumulatively shows an overall impact on the numbers on the negative side. But having said that, there is an INR85mn loss on the broadband side of the business which is pretty much in the investment phase and there is a INR40mn loss basically on the football side where we have made certain expenditure on the ongoing football property that we hold for Delhi.

Beyond this, I think we have been working on the broadband side of the business and we are happy to report that in the last couple of months we have started getting some traction on the business and currently we have managed to have about 75,000 homes passed which essentially has happened in the last 1.5 months. So at the current going rate, we should be doing something like 40-50 k home passed almost on a monthly basis. So scaling up should happen in the next couple of quarters in a very significant manner. So we have added couple of thousand subscribers as well and the initial response that we have got is very encouraging. The ARPUs have obviously been a very small number. The ARPUs are in the range of INR725 plus and if you see the broader trend for the market, almost 50% of the market that we have got is essentially from competition because of the stronger product proposition that we have essentially with higher speed on DOCSIS 3 platform. About 20%-25% of subscribers are first hand subscribers which is also very encouraging which basically tells you there is lot of latent demand for a product like DEN and general offtake of broadband. So hopefully, we should see significant addition in the coming quarters and definitely broadband the opportunities that appear it is going to be one of the central play for us going forward both from a revenue and from investment point of view.

On the soccer side, as you are aware we have signed up with Feyenoord which is a Dutch Club and one of the world's best managed clubs. The tournament is expected to happen sometime in between October and November and we believe that over a period of time, this property coincides with our B2C business launches both on the cable and the broadband side and it is going to be a great value play for over a period of time. And I think going forward, we will continue to look at opportunities which essentially ride on our existing sub-base with minimal amount of financial investment and huge opportunities for value creation. So having said that, I will hand over to Rajesh who will take you through the numbers and then we are happy to take on any questions that you might have. Thank you.

**Rajesh Kaushall:** Thank you Azhar. Good evening everyone. I will just take you through the split of the various streams of businesses what we are right now managing. So we have cable, broadband, soccer and distribution business. The total revenue is INR2990mn, out of which INR2850mn is cable, broadband is INR10mn and distribution business INR130mn. On the EBITDA, we have INR690mn coming from cable business and which Azhar just explained has got really invested into broadband and soccer in the form of those launches of broadband and soccer in the brand initiatives. So we have roughly losses of INR85mn in broadband and soccer about INR42mn. So we have INR570mn EBITDA which seems lower, but it is essentially as Azhar explained, this is more of investing mode for broadband and soccer. We have other income of about INR190mn and the EBITDA on a consolidated basis is INR760mn, out of which EBITDA including the other income is INR870mn and subtracting broadband INR80mn and INR40mn of the broadband and soccer is about INR760mn. So we have a profit before tax in cable of INR250mn and consolidated number of INR130mn taking out the impact of broadband and soccer.

So on year-on-year basis let me walk you through the cable key highlights and the growth in the operational revenues excluding the activation revenue since activation revenues are essentially based on the deployment. I f you were to exclude the impact of activation revenue, then the operations revenue has actually grown by 37.4% year-on-year from INR1930mn to INR2650mn. The subscription revenues have also grown by about INR700mn year-on-year from INR760mn to INR1460mn, so the growth in subscription revenues on a year-on-year basis has been 93%. The overall operation revenues have grown by about 11.5% despite a decline of INR430mn in activation revenue in Q1FY15.

If you were to look at the split of revenues excluding the activation revenue between subscription and placement, that has actually got really transformed from 40:60 that is subscription 40%, placement and other incomes being 60% to 55:45 on a year-on-year basis. On the EBITDA side if you were to look at excluding the impact of activation revenue, then the operational EBITDA has increased 187% from INR172.4mn to INR494.2mn on year-on-year. The PAT has also similarly increased from INR97mn to INR131mn, so there is a growth of 35.5% and this is despite the higher depreciation of about INR100mn.

So essentially if you were to look at the quarter-on-quarter highlights, the operational revenues have remained steady at about INR2850mn despite a decline of INR140mn in activation revenue and this has essentially been because of the enhanced subscription revenue which Azhar just mentioned. The operational EBITDA excluding activation revenue has increased 32% Q-on-Q from INR375mn to INR494mn and if you look at PAT before exceptional items, it is INR130mn vis-à-vis INR150mn. However, if you neutralize the effect of lower activation revenues of INR140mn, lower other income of about INR46mn and higher depreciation of about INR30mn, the PAT is actually higher on Q-on-Q basis.

Just to give you some more updates on the set top boxes deployed, in Q1 we have deployed 272k boxes at about INR700 and the total STBs deployed till date have become 6.4 million now out of analog base of 13 million. We have already deployed about 5 million of those in Phase-I and Phase-II. The balance 1.4 is into Phase-III and IV. On the digital revenues, if you were to look at Phase-I and if you were to look at the package composition between the Introductory, Family and Platinum packages which we have in Delhi, then the ratio is essentially 30:50:20. So 3:5:2 is the ratio. So most of the people have really gone in for the middle pack and in Calcutta, the ratio is 50:30:20. So as you all know we have been doing gross billing in Delhi and Calcutta since January 2014 and the weighted average ARPU really comes to about 240 including taxes. But in Mumbai, we have not been able to start the gross billing due to litigation / entertainment tax issue. The average gross billing rate (net of the LCO share) for Phase-I has been about 120 per box including taxes. On DAS Phase-II, we have not been doing retail billing and right now we are doing net billing which is about 65 per box including taxes and this has been growing every quarter. So this quarter also it has grown by about INR15 per box vis-à-vis the previous quarter. And net billing actually varies from town to town and ranges between 45-50, in some towns to 80-85 including taxes. On Phase-III and Phase-IV, STBs deployed as I said earlier has been 1.4 million out of the base which we have about 8 million and the revenues in Phase-III and Phase-IV has also gone marginally up from INR200mn to INR220mn.

And if you were to look at the consolidated financials, on quarter-on-quarter, the operational revenue is at about INR2990mn. This has been remaining steady despite the decline in the activation revenue primarily because of the enhanced subscription revenues. I think as Azhar explained that the overall EBITDA is at INR571.6mn and this is despite the loss of about INR120mn on account of investing into new business initiatives of broadband and soccer.

And some of the color on the balance sheet is that we have a debt of about INR9760mn and this has been down by about INR270mn this quarter end because we have been repaying debts at a consistent rate every month and we have a cash balance in the consolidated business excluding distribution of about INR10.840bn which has got reduced by the investments in soccer and broadband as well as we have been consolidating the economic interest in some of the flagship JVs. So we bought about 10%-15% in some of them. So this is all which we wanted to cover.

I will just give you the revenue split for the quarter-on-quarter. So the subscription revenue was INR1250mn in the previous quarter. This has gone up to INR1460mn. The placement has in fact remained steady almost INR1190mn to INR1160mn now. Other operating income is at INR29mn vis-à-vis INR67.6mn. But in all, the revenues of INR2510mn has grown to INR2650mn this quarter now, higher by about INR140mn if you exclude the impact of the activation revenue. The activation revenue is about INR140mn down, the digital activation revenue was INR340mn in the previous quarter, it is INR200mn now. And if you were to look at on a year-on-year basis, the split is INR760mn of subscription revenue has gone up to INR1460mn. So a jump of 93% as I said earlier, INR700mn has gone up. So placement has gone up from INR1080mn to INR1160mn and the Other operational revenues is INR89.2mn has gone actually marginally down to INR29mn. So the total revenues excluding the activation has gone up from INR1920mn to INR2650mn. The digital activation revenue was not comparable. On year-on-year basis, it was INR630mn, now it is only INR200mn. As we move ahead in Phase-III and Phase-IV, the activation revenues will be a function of the deployment of boxes. So now I think we can open the floor for any question and answers.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Vikash Mantri from ICICI Securities. Please go ahead.

**Vikash Mantri:** Sir before I start, just wanted a breakup of the numbers again. INR1460mn is subscription, INR1160mn is placement, INR200mn is activation. Am I right sir?

**M. G. Azhar:** Other operating revenues is INR30mn, so in all INR2850mn. And INR180mn was the other income.

**Vikash Mantri:** Sir just wanted to understand when you say you get on a gross basis INR110 odd or so, net of LCO, but is the transaction happening that way that you are getting all the money and then you are giving the LCO share which would essentially mean gross billing or it is still basically means the LCO deducts his share and then gives you.

**M. G. Azhar:** Yes, what you are saying is absolutely correct. We are still in a situation where LCO sort of deducts, but we are deducting TDS on the payment which is due to them.

**Raj Kaushall:** So I think we are actually encouraging the LCOs to actually deposit the full value and in some cases that has also happened. So that is also moving that ways because as far as our accounting is concerned, we are doing a consumer billing. So the boxes are actually tied with each LCO and that is how we are doing a billing. So we are generating a bill on each and every consumer who is actually tagged to the LCO; however, you are right that the LCOs actually collecting the money and depositing it with us, in some cases by deducting his share. However, we have PAN numbers of about 90% of the LCOs and the necessary taxes on their share has been deducted and deposited on their behalf.

**Vikash Mantri:** Sir the LCO, any deposits today after deducting his. Is it on a per STB basis as per packages or it is still one package assumed for all STBs and then a calculation is done on that.

**M. G. Azhar:** No. The billing and collection is done on a package basis. The LCO share, however, obviously there are second television sets as well in the market place. So that is actually on average, but like Rajesh mentioned, the entire gross billing, the way it should be, it is not fully operational as of now. So it is a mix of both, but in majority cases, it is as per package. But there are some cases where it is done on an average basis as well.

**Vikash Mantri:** Sir we recently had one MSO having issues on the content side with two broadcasters. How are we placed on our content negotiations with Zee and Star and more importantly for the year and what are the terms in terms of are we going in still for a fixed one or have they moved to CPS, any color on that and the MSOs are also keen on moving to CPS as per our interaction or on an a la carte basis. So would you still like to do package deals or go to a la carte, some color on that will help sir.

**M. G. Azhar:** The first part of the question, I think if you see our history, we have not had any significant issues with any of the broadcasters and we are absolutely one of the most less litigious company in the entire cable space and that obviously explains the way we typically want to function. The process of digitization is actually benefitting everybody. So everybody has got a stake in it. So we clearly think that as long as parties are not very unreasonable, there is no need or there is no purpose in fighting. So obviously we have no issues with that, but on the second part of the question whether it is fixed fee or CPS. In a digitized environment whether the deal is done on a fixed fee amount or a CPS amount, it is just a nomenclature because the broadcasters when he comes to negotiate, there is a finite number behind the scene and for us we are negotiating there is a finite number. So it is actually a CPS number which way where you want to look at it. In some of the broadcaster case, the agreement will say that this is on a per STB basis and some cases it will show absolute amount but I think the industry is clearly moving towards the CPS kind of an environment for sure. And on basically the growth in the content like we mentioned last time, we gave a broad range of 15%-25% growth in the content cost and we think it will fall well within that range.

**Vikash Mantri:** Sir would you prefer putting everything in a package or going the a la carte way with channels voluntarily or otherwise?

**M. G. Azhar:** If you see globally and worldwide and even in India historically and you look at DTH which is essentially a completely addressable environment, the way the content, these are all things that you are seeing all the issues with the broadcasters, with the MSOs that we are saying. To my mind, this is essentially symptomatic of the transition that we are seeing in the market place from a B2B or B2C environment. But once it settles, I think it will be in the consumer interest to buy it in bulk and it will be in our interest to buy it in bulk and serve it to the customer in bulk. Having said that, there will be niche channels which will be sold on an a la carte basis which will essentially be revenue share kind of deals with the broadcasters. So those channels will get sold on a la carte, but I think all the flagship channels from the flagship bouquets and production and media houses will effectively be sold on a bulk basis. That is my view, but lot of things can change. I would imagine that is the way because it makes probably lot more sense for us also to optimize the cost and probably serve the consumer also better by having lot more choice. So over a period of time, my sense is it should move in that direction. What you are witnessing now is essentially the transitioning and push and pull that both sides are having.

**Moderator:** Thank you. We have the next question from the line of Pooja Lath from Edelweiss. Please go ahead.

**Abneesh Roy:** Sir, this is Abneesh here. Sir my first question is if you see some of the cable companies are also launching cable channels. So in this, what is our strategy if you could say and what can be the upside in this kind of a strategy in terms of advertising revenue?

**M. G. Azhar:** I think we have sort of underplayed it but the kind of channel launches that people are talking, we already are running close to about 4 channels which are being centrally run and they have been running for the last one year. We were not smart enough to position it in a market place. But those four channels are already running. But having said that, on the larger question, on the kind of opportunities that these channels have, if you see the heterogeneity of the Indian market and the relevance of local content, I think over a period of time this is going to be a biggest differentiator between different platform for cable and if you take any clue from markets like US, it is a big potential both from value creation perspective and from revenue generation potential as well and all these cable channels because of the relevance will have significant viewership. Today TAM does not track those, but I am sure over a period of time they will start tracking it and then you will have rating against it and if you see the last rating which used to come where they used to provide rating for the entire local channels as a group. It was probably the viewership was almost second to the entertainment channels. So I would imagine the viewership is there. So over a period of time as we sort of build these properties, there would be a significant revenue generation potential in the form of advertisement revenues. And also I think because of the fact that digitization has happened, there will be lot of localized advertising along with the national advertising because digitization creates the framework and we hope that over a period of time, revenue models will evolve where MSOs also will get some share of advertisement revenue because of the fact that targeted advertising can be done essentially on the back of investments done by MSOs.

**Abneesh Roy:** Sir my second question is on the broadband, the other large MSO is saying that a larger part of the investment going ahead will go into the broadband business. What is our number there and in terms of Phase-III, Phase-IV, are you also looking at reducing the base of your seeding of box what we saw in Phase-I and Phase-II versus that will the seeding be lower as a percentage?

**M. G. Azhar:** In fact what we talked about last quarter, we continue to maintain the same position that we will digitize our existing 13 million sub-base and look to acquire and digitize couple of million more. So the idea is to get to a number between 15 to may be 20 million kind of sub-base by the time digitization finishes. That number remains intact. Even though we have deliberately slowed down the seeding of the box in this quarter, essentially because we were looking for some clarities on the government in terms of deadline for Phase-III and Phase-IV and our sense is I think in the next couple of weeks, we should get some kind of direction in terms of what those deadlines would be and I would imagine that seeding of set top boxes will start gaining sales. So obviously on the digitization side, we are not sort of slowing down and we continue to sort of prepare ourselves for our early plan of close to in excess of 15 million sub-base. On the broadband side, like I said in the first 3 months we were trying to evolve the entire ecosystem and there were lot of learning's with it. So that is pretty much now on track. Like I said we already have 75 k home pass which essentially happened in the last 1.5 months. So we can essentially now scale it up really fast, 50,000 home pass plus per month. So we have started now opening up Delhi. Delhi, we are already doing. We are opening up now Kanpur and then we will add other cities as well. So like I said, we already have couple of thousand subscribers but I think in next coming quarters, you will see significant ramp-up. So like I said earlier that broadband will be a central play the fact that we have started just now. I think the level of investment and the quantum investment will be dependent on how successful we are and looking at the current metrics, we are fully confident that this is going to be a central strategy. So investments are definitely going to follow accordingly. So I would imagine both CAPEX on digitization and CAPEX on broadband will run hand in hand and as we get more success, broadband investment will sort of leapfrog significantly. And we are now seeing, I think significant traction from the LCO fraternity as well to participate on the broadband side because these are incremental revenues and ARPUs are very healthy. So even if a 10% commission means the significant number for DAS. So I would imagine that broadband investment will be significant going forward and it will be a central strategy because this is a network which we are basically building for the future and this is a ready for a triple play service, you can have on demand services. All of these things will start sort of coming in over the next 6 to 12 months.

**Abneesh Roy:** Sir but just a follow up on this. What it be a better strategy; in Phase-I, Phase-II already we have done very good amount of seeding. Would not it be better strategy if we focus broadband on Phase-I, Phase-II and then focus on this because here is higher ARPU and here may be the overall transparency levels and the LCO, MSO relationship will be easier because that is what the other MSO is doing. So in that context, I wanted more color. I am not debating on the deadline. See, deadline can be 3 months, 6 months that does not change the strategy. My question is more why do we want to go to Phase-III, Phase-IV in a big way. Phase-I, Phase-II broadband plus cable might be a bigger opportunity than spreading us thin and going in Phase-III, Phase-IV.

**M. G. Azhar:** For us, it is not an either or situation. Like we said earlier, broadband investment will continue and as we get more success, more capital will go into it. Digitization is not coming in the way of broadband because we are well capitalized, we have low debt. So we can build well if both the businesses take off significantly. We are fully geared to drive both. So idea is ultimately 2 years down the road once the market gets fully digitized, ultimately then where do you want to look for own subscriber provided the markets essentially start driving broadband in their own state of subscriber base. You are creating this whole distribution sub-base on which you are going to capitalize in the broadband as well. So for us, it is not either or. I think strategy will be to drive both and as we have launched broadband, the focus now is on the broadband side because this is a new business and we really want to make it a successful and make a central play for ourselves. But both will continue because digitization is more or less on an auto role and for us the fact that we are sitting on capital is definitely not a challenge because on the digitization side, we certainly do not need to make any significant effort because market is pretty warmed up. The LCO or the distributor fraternity are aware of the government deadlines and what it actually does to the consumer and the overall value proposition. So it is on an order queue so does not require too much of our focus or time.

**Abneesh Roy:** Sir my last question is has the subsidy element in the boxes, is that reducing currently versus what it was one year back and second is in terms of HD if you could tell us how much we have seeded till now and will our pricing be lower versus DTH in terms of the value which you give to the consumer for the HD box?

**M. G. Azhar:** So first question on the HD, on the HD side we have currently deployed close to 10,000 boxes which we had bought earlier. The new set of boxes are already under test which we hope to launch in the next may be 3 to 4 weeks which is going to be aggressively priced and my sense is that is going to be aggressively priced as compared to competition which is essentially going to be DTH. So I think the strategy will be rolled out once we are ready for the big launch. And on the subsidy element of the set top boxes, as we said we are on average collecting about 700, this number varies between 700-750 in different quarters, but what is happening is definitely the price of boxes has come down. So the subsidy element has definitely gone down.

**Moderator:** Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

**Mayur Gathani:** Sir regarding the collections that we are receiving today. You said it is INR120 including the service tax and entertainment tax right for Phase-I. So that is approximately INR88 – INR90 net collection that we are getting in our books.

**M. G. Azhar:** Right.

**Mayur Gathani:** What are we looking at sir from 90, where can we go to and what is the timeframe that what is stopping us from going ahead.

**Management :** What is stopping us is essentially the general market environment and obviously all of us are working towards improving that. I think this can possibly grow another INR20 – INR30 in the coming quarters.

**Mayur Gathani:** So can you look at INR110 figure by let us say FY15 and by Quarter 4?

**M. G. Azhar:** Yes, we are very hopeful.

**Mayur Gathani:** And for Phase-II, you said it is INR65, this is also including both the tax, entertainment and service?

**M. G. Azhar:** Yes. So entertainment in most of the Phase-II market essentially on the LCOs. So because we are not doing gross billing, so entertainment tax….

**Mayur Gathani:** Correct. So it is only service tax that is hit here.

**M. G. Azhar:** Yes.

**Mayur Gathani:** And what is the figure that we can look at in Phase-II sir and when can we have the billing regularized in Phase-II, any timeframe that you can have?

**M. G. Azhar:** I think last quarter we were doing on an average 50-55. This quarter we have to move 60-65 almost INR10-15 increase we have already seen. I would imagine in the next couple of quarters, you will see similar trend emerging. I think this number will probably move closer to about 100 by the end of financial FY15 and gross billing will sort of become part of the way.

**Mayur Gathani:** And sir what is the set top box seeded digital base as of now? Is it 6.4 million?

**M. G. Azhar:** Yes.

**Mayur Gathani:** What is the inventory that we have?

**M. G. Azhar:** Inventory is closer to, I think 0.5 million boxes.

**Mayur Gathani:** And any guidance that you could give on the losses in football that we may have to face further?

**M. G. Azhar:** Yes, last quarter we had indicated about INR200-250mn loss on the football side.

**Mayur Gathani:** And on broadband?

**M. G. Azhar:** Broadband, we are not providing any future guidance because this is the new business that we have sort of started off. I think let us wait for another quarter or two before we start giving guidance on that.

**Mayur Gathani:** And any input on the deadline that you are hearing from the Ministry?

**M. G. Azhar:** Like I said in my opening remarks, we are still waiting for some clarity from the government because they are keen on some domestic manufacturing. So some of the vendors are already making pitch in the Indian market for manufacturing. So in the next couple of weeks we should get some clear indication from the government authorities.

**Mayur Gathani:** And the subsidy today would be around INR700 on the set top boxes, or it would be less?

**M. G. Azhar:** Less than that and it will probably go down further because the price is coming down.

**Moderator:** Thank you. We have the next question from the line of Nirav Dalal from SBI Cap Securities. Please go ahead.

**Nirav Dalal:** First I wanted to know is do you do gross booking for Delhi and Calcutta or how does the revenue booking happen for Phase-I markets?

**M. G. Azhar:** No, for Phase-I market we put obviously Mumbai as well but we do the gross billing for Delhi and Calcutta.

**Nirav Dalal:** Only Delhi and Calcutta. So LCO share comes in the expense side?

**M. G. Azhar:** Yes.

**Nirav Dalal:** And you spoke about losses to the tune of INR250mn in the soccer. Any additional investment into that business?

**M. G. Azhar:** No, obviously this is after all the revenues and all the cost. But INR250mn if you look at it, the amount of branding that we have already got and that on the Facebook we are probably one of the, I think largest hit that we are getting amongst all the franchisee owners and the amount of buzz that we have generated in the Delhi market and everywhere else. So we will effectively, we are looking this as a branding expense. Obviously this will also create a huge value over a period of time. But this INR250mn essentially, the way we are looking at is more like a marketing and branding expense and there is enough value for the money that we spend around this.

**Nirav Dalal:** But then it will be restricted to this loss right?

**M. G. Azhar:** Yes.

**Nirav Dalal:** And in terms of the LCO sharing, how is it currently?

**M. G. Azhar:** So basically it is closer to about 50%. Overtime should get more towards 40%.

**Nirav Dalal:** 50% including the distributors' commission?

**M. G. Azhar:** Yes.

**Moderator:** Thank you. The next question is from the line of Vikash Mantri from

ICICI Securities. Please go ahead.

**Vikash Mantri:** Sir clarification, you said LCO share is part of the cost. I thought it was netted off with revenues. Can you help me with that number?

**M. G. Azhar:** So like I have said earlier we are taking the gross billing and then providing the LCO share of the expense. So what do you want?

**Vikash Mantri:** What is the item and under which headline does it appear sir?

**M. G. Azhar:** So it comes under the other operational and administrative costs.

**Vikash Mantri:** And can you help me with the amount as well sir?

**M. G. Azhar:** I do not think we have the number offhand. We can probably provide you. So you can probably get in touch offline.

**Moderator:** Thank you. We have the next question from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.

**Arjun Khanna:** My first question is in terms of regulations for the channels that we have on our network, do we have to take up linking, downlinking permission from MIB?

**M. G. Azhar:** Currently no. In fact TRAI has wrote a consultation paper on this. But currently we do not need to take any downlinking approvals. So basically these are all server run channels so you do not need those downlinking approvals.

**Arjun Khanna:** And technically we can also increase the number of channels on our network?

**Management:** Yes, there is absolutely no restriction in terms of number of channels that we can add.

**Arjun Khanna:** Fair enough. Sir my second question is in terms of probably conceptually the difference in pricing between packages of DTH versus MSOs. How do you see that both moving ahead? I understand that ARPU should go up but is it possible that cable gets more expensive than DTH in the interim?

**M. G. Azhar:** No, I do not think that is going to be the case. I think it will probably move in tandem because I mean the cost structures everything, these are all sort of stabilized for both the platforms and there is a reasonable amount of scale for both platforms. And there are no new players who are coming into the market place to disrupt the market. So I would imagine this will be moving in almost, they will be competitive and if we see the current as well, at the base level and mid level we are probably closer to DTH pricing but on the top end, the package we are relatively cheaper. So I would imagine that trend would probably continue and over a period of time the gap should close. But cable will definitely be a little cheaper than DTH.

**Arjun Khanna:** Fair enough. And sir the last question is in terms of the HITS platform, we are seeing a lot of companies planning to launch, one company has already launched. How do you see that as a competition towards MSOs in smaller cities going into Phase-III and Phase-IV?

**M. G. Azhar:** I mean frankly because in our mind, we deliberated this six years back and we as a management came to the conclusion that in a market place like India where you have fiber connectivity to almost all the markets, it does not make sense because at the end of the day you do not have any new sort of proposition for the LCO as compared to what the MSOs are offering and from a consumer perspective as what DTH is offering. So we really do not see too much of impact because of essentially had it been a situation where there are cable operators who are running small networks but they are connected on fiber, probably there could have been a model. But today because of fiber availability, we do not see any significant impact from any of the HITS platform. And some places, we have already experimented with the platform and sort of after the learning they sort of closed it down. So I do not know what has changed in the market place for other people to come and capitalize. So there is already NSEL which is already there. I do not see, I have not heard them sort of acquiring any significant sub or making any significant impact on the market place. So we will wait and see but I think we are very clear that we definitely do not want to get on to the HITS platform.

**Arjun Khanna:** Fair enough. If I understand correctly, we are not planning any HITS launch at all?

**M. G. Azhar:** Not at all.

**Arjun Khanna:** And lastly sir if I may, just one more. In terms of broadband, would it only go to our existing subscribers or we are also selling it to enterprise customers?

**M. G. Azhar:** No. We will be selling it to enterprise customers. I mean the current focus is to try and serve customers who are already within our catchment area and I think depending on which player wants to, what they want to do with the broadband initiative, there could be models which will evolve over period of time. But as we speak, our initial focus will be to try and offer it to our entire sub-base that we have on the digital side and then look at other opportunities.

**Arjun Khanna:** Do we have any of our LCOs providing broadband from other sources apart from us?

**M. G. Azhar:** Yes, there are. May be some LCOs are providing land connection. But as we are signing them up for the broadband where they essentially moving their land networks on to the DOCSIS platform because obviously DOCSIS platform, you have a stronger product proposition. The ARPUs are higher. So it makes sense for everybody.

**Moderator:** Thank you. The next question is from the line of Ishpreet Kaur from Karma Capital. Please go ahead.

**Ishpreet Kaur:** What is the kind of growth that would be coming in because of gross billing because you have moved to gross billing, so I am assuming a lot of growth will be coming because of that also?

**Rajesh Kaushall:** I think as I explained earlier, the gross billing has started from December 2013 for Delhi and from January 2014 for Calcutta. So if you look at it from a quarter-on-quarter perspective, it has been there for the last quarter also. So it is not something that it started off only in this quarter.

**Ishpreet Kaur:** So Q4 also had the gross billing of Delhi and Kolkata.

**Rajesh Kaushall:** Yes.

**Ishpreet Kaur:** And also in terms of disclosure, if you could add on the line item in terms of the share of LCO, it would be great.

**Rajesh Kaushall:** We would try to give that data also from next call onwards.

**Moderator:** Thank you. The next question is from the line of Rijul Gandhi from Centrum Wealth. Please go ahead.

**Rijul Gandhi:** Just wanted to know how is the activation revenue per set top box that will be there in the Phase-III, Phase-IV markets. Will it be in the range of 700-750 that is what you mentioned earlier or it will be little lower than that?

**M. G. Azhar:** I would imagine it will be in the same range, but lot depends on the market environment. But looking at the number of the scale at which the digitization is to happen, we should be in the same or similar kind of range, 700-750 kind of range.

**Rijul Gandhi:** Just another one on the broadband front. You had mentioned around INR20mn per month would be a normal expenditure for broadband. So more or less it would be the same for the entire year or would you expect it to increase or decrease accordingly?

**M. G. Azhar:** Obviously. As operations sort of expand, so you will see the revenue increase also coming in and you will see cost increase also coming. So obviously we talked about this INR20-25mn number when we were essentially starting off product launch. But as the product gets launched, so obviously there will be a marketing spend, there will be bandwidth purchases more, there will be commission paid out more and these are all a function of subscriber addition.

**Rijul Gandhi:** So more or less CAPEX of INR2000-2500mn that you would set up for broadband is more or less the similar for 2 or 3 years?

**M. G. Azhar:** INR2000-2500mn is what we said initially that we would like to have invested. But like I said in earlier comments, we have to make this success and depending on the kind of success we make, the CAPEX I do not think is going to be challenge because the proposition both from a consumer front and from our point of view is very strong and the value creation that it does for us is very strong. So obviously it warrants all kinds of attention and CAPEX rollout that it needs and the fact that we are sitting on capital, I do not see that as a challenge.

**Rijul Gandhi:** Sir just a small bookkeeping question. I just needed the activation revenue in Q1FY14 and Q4FY14.

**M. G. Azhar:** So Q4 was about INR340mn and Q1 of this year is about INR200mn.

**Rijul Gandhi:** Q1FY14 last year?

**M. G. Azhar:** Last year that was INR640mn I guess, INR630mn and this quarter is about INR200mn.

**Moderator:** Thank you. The next question is from the line of Jay Gandhi from Antique Stock Broking. Please go ahead.

**Jay Gandhi:** Initially you just give us a split of the percentage of subscribers on each package. So if you could just help me with that?

**Rajesh Kaushall:** The package split is in Delhi, it is 30% is the introductory pack, 50% is the mid pack which is the family pack what we have, and 20% is the platinum pack which is the high end pack. In Calcutta, this ratio is 50:30:20.

**Moderator:** Thank you. The next question is from the line of Rohit Dokania from IDFC Securities. Please go ahead.

**Rohit Dokania:** Just one question from my side that would be is there any forward movement in terms of revenue share agreements with the LCOs in Phase-I markets?

**M. G. Azhar:** No. So I think the agreements are practically there and it is still the same. I think as you would understand this is more of a push and pull kind of strategy which is playing out. So obviously every quarter we are seeing our share of revenue increasing and that is pretty much going to be the trend in the coming quarters till the time we reach a situation where it is sort of completely steady state and both the parties have reconciled as if that is going to be the future revenue split. So it is a moving target as we speak. But like I said it will probably settle around 40% with the current visibility that we have.

**Moderator:** Thank you. The next question is from the line of Balwinder Singh from Prabhudas Lilladher. Please go ahead.

**Balwinder Singh:** Sir if you could give out the EBITDA per subscriber in Phase-I and II?

**M. G. Azhar:** I think we will have to take this offline my friend.

**Rajesh Kaushall:** That we have to calculate that separately. I think there are some of the MSOs who given that number, so I think the question is emanating from there, but we would actually like to just get that segment analyzed and then calculate that and probably we can try to give that view in the next call.

**M. G. Azhar:** Or we can probably provide you offline.

**Moderator:** Thank you. The next question is from the line of Nirav Dalal from SBI Cap Securities. Please go ahead.

**Nirav Dalal:** I just wanted what would be the paying subscriber base for broadband and cable?

**M. G. Azhar:** So like I said broadband, we did have couple of thousand subscribers.

**Nirav Dalal:** So they are contributing about million of rupees that is coming in?

**M. G. Azhar:** Yes.

**Nirav Dalal:** And in terms of cable, what would be the paying subscriber base?

**M. G. Azhar:** Paying subscriber base would be about 85% of our total sub-base of 5 million because some of the boxes are on marginal territory where it sort of, the same LCO but probably the boxes deployed in Phase-III. So 85% of our existing sub-base of 5 million is what the paying subscriber.

**Nirav Dalal:** Is the paying subscriber and what would be the analog revenues? Analog revenues you said about INR220mn.

**M. G. Azhar:** INR220mn is the subscription revenue.

**Nirav Dalal:** Subscription revenue from the Phase-III and IV?

**M. G. Azhar:** Yes.

**Nirav Dalal:** And 85% of the 5 million would be the paying digital subscribers.

**M. G. Azhar:** Yes.

**Moderator:** Thank you. As we have no further questions, I would like to hand the floor back to Mr. Garude for closing comments. Please go ahead.

**Alankar Garude:** Thanks everyone for participating in this conference call. Special thanks to the management for giving us this opportunity. Have a good day.

**M. G. Azhar:** Thank you everybody. Thanks for finding time. Thanks.

**Moderator:** Thank you gentlemen. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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